

VZCZCXRO3304
PP RUEHDBU
DE RUEHTA #2155/01 1701137
ZNY CCCCC ZZH
P 191137Z JUN 06
FM AMEMBASSY ALMATY
TO RUEHC/SECSTATE WASHDC PRIORITY 5810
INFO RUEHAK/AMEMBASSY ANKARA 1899
RUEHKB/AMEMBASSY BAKU 0695
RUEHBJ/AMEMBASSY BEIJING 1267
RUEHDBU/AMEMBASSY DUSHANBE 1785
RUEHKV/AMEMBASSY KIEV 2463
RUEHMO/AMEMBASSY MOSCOW 1266
RUEHNT/AMEMBASSY TASHKENT 7590
RUEHSI/AMEMBASSY TBILISI 2214
RUEAIIA/CIA WASHDC
RUEBAAA/DEPT OF ENERGY WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 ALMATY 002155

SIPDIS

NOFORN
SIPDIS

DEPT FOR EB/ESC; SCA/PO (MANN); SCA/CEN (MUDGE)

E.O. 12958: DECL: 06/19/2015

TAGS: [ENRG](#) [EPET](#) [KZ](#) [PGOV](#) [PREL](#) [RU](#)

SUBJECT: ACCESS INDUSTRIES CHAIRMAN DISCUSSES KAZAKHSTAN
INVESTMENTS

Classified By: Amb. John Ordway, reasons 1.5(b) and (d).

¶1. (C) Summary: Access Industries Chairman Len Blavatnik discussed his company's Kazakhstan investments with the Ambassador on June 8. While Access is quietly offering its only Kazakhstani power plant for sale, it is simultaneously trying to buy into the Ekibastuz Gres II plant, as part of what Blavatnik described as a strategic decision to invest more heavily in electrical power generation. On the subject of petrochemicals, Blavatnik cast doubt on Access-subsiary Basell's recently-announced interest in building a gas chemical complex in Atyrau, telling the Ambassador that high feedstock prices rendered Kazakhstan noncompetitive as a petrochemical site, in comparison with the Middle East. End summary.

Regional Coal Demand Rebounds to 1998 Levels

¶2. (SBU) Access Industries billionaire Chairman Len Blavatnik, in Almaty for Kazakhstan's biannual Foreign Investors Council and the International Herald Tribune's Kazakhstan Investment Summit, called on the Ambassador on June 8, accompanied by Access Senior VP Paul Rodzianko, and Dennis Price, General Director of the Bogatyr Access Komir coal mine. (All three are Amcits.)

¶3. (SBU) Blavatnik opened the conversation by remarking that the regional economy had finally rebounded to 1998 levels, both in terms of coal production (Bogatyr Access Komir's Kazakhstani mines currently produced 40 million tons per year, Blavatnik estimated, compared to 50 million under the USSR), and "the ability of our customers to pay for it." Still, Blavatnik lamented, Access didn't receive "world-level" prices for its coal, and unfortunately had to function "too much like a transportation company," shipping its coal long distances to its Urals customers. (When the Ambassador countered that Access probably hadn't paid "world-level prices" to acquire its mines, either, Blavatnik laughingly admitted that was true, while adding that he had paid "risk-adjusted prices.")

Access: Growing Interest in Power Generation

¶4. (C) Blavatnik told the Ambassador that Access was increasingly interested in investing in electrical power generation, both in order to capture more value-added in the production chain and to reduce the costs associated with long-distance coal transport. Blavatnik envisioned numerous markets. The old Russian power infrastructure was already functioning at capacity, he said, opening the door for new investment. Exporting electricity to China was inviting, he added, as well as west to Brest.

¶5. (C) Notwithstanding the company's overall strategy of increasing its generating assets, Blavatnik said, Access was quietly looking to sell its "unprofitable" Access Energo CHP (combined heat and power) plant in Petropavlosk. Access had long petitioned the government for a wholesale tariff increase, Blavatnik explained, and the Prime Minister had recently promised Blavatnik to increase tariffs "at some point," but it wasn't clear when that might happen. (Note: Days earlier, AES's Dale Perry told Ambassador that Access had approached AES about buying the plant -- an offer which AES was considering. End note.)

¶6. (C) At the same time, Blavatnik explained, Access was interested in buying into the Ekibastuz Gres II coal-fired plant (owned 50/50 by RAO UES and the GOK), either by building an additional 1000MW of capacity or by transferring turbines from its CHP plant in Petropavlosk. Either way, Access would likely export the power to Russia, taking advantage of Northern Kazakhstan's abundant 500 kV connector lines.

Nuclear Power: Not Economical

ALMATY 00002155 002 OF 002

¶7. (C) Asked by the Ambassador what he thought of the GOK's recently-revived plans to build a nuclear power station by 2015, Blavatnik shook his head. Nuclear power doesn't make economic sense in Kazakhstan, he said. "The government is too smart to do it," he added. "By the time they get to a decision-point, rational logic will take over." Price noted that oft-discussed plans to build gas-fired plants in Kazakhstan's Caspian region, along with new transmission lines to carry the electricity east, were similarly uneconomical when compared to electricity generated from Kazakhstan's abundant coal.

Basell's Petrochemical Project: Stalled on Feedstock Price

¶8. (C) Blavatnik then turned the conversation toward petrochemicals, "and my latest acquisition, Basell." (Note: Access acquired Basell in 2005. In late March, Basell, KazMunaiGaz (KMG) and SAT&Company announced the formation of a joint venture aimed at constructing an integrated gas chemical complex in Atyrau. End note.) "Kazakhstan is ideally positioned for petrochemicals," Blavatnik stated. However, he added, Basell's announced project faced high feedstock prices in comparison with Middle East competitors. In most Middle East countries, Blavatnik explained, governments effectively subsidize feedstock prices for the petrochemical industry. In Kazakhstan, he continued, Basell's only existing option was to buy TengizChevrOil gas at around \$50 per thousand cubic meters. At that price, Blavatnik concluded, "it's probably not going to work. Unless we solve that problem, I don't know how far we go." (Comment: Although Blavatnik is looking at the Chinese market, most oil and gas experts we've talked to would contest Blavatnik's assertion that Kazakhstan is "ideally situated" for a petrochemical industry. The skeptics point out that Kazakhstan's landlocked status and distance from market reduce its competitiveness. Further, most of Kazakhstan's associated gas is reinjected to maintain oil pressures, greatly reducing the quantities available for petrochemical processing. Even at the selling price of

\$50/mcm, for example, TengizChevroil is reserving the contractual right to reinject the gas, rather than sell it to Basell, should geology and the market so dictate. End comment.)

19. (C) Blavatnik closed the conversation by reflecting on contemporary Russia, through the lens of Access's major oil investment, TNK-BP. TNK-BP is a "very good business," he said, though the company faced near-constant tax harassment and was forced to navigate a political context "much more complex than Kazakhstan's." Blavatnik noted that, in line with BP's global strategy, TNK-BP was selling some of its old assets -- including one to a CNPC/Rosneft joint venture, a point which Blavatnik thought was indicative Russian willingness to sell assets to the Chinese -- while focusing on acquiring new, growth-oriented assets. As far as state policy, Blavatnik opined that the approaching end of Putin's term meant that "the status quo is about all we can expect in the near future."

ORDWAY